

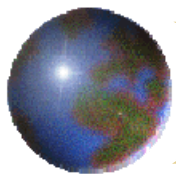
Fundamentals of a Bond Sale



Gary Hall

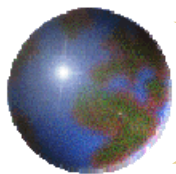
Vice President

J.P. Morgan Securities Inc.

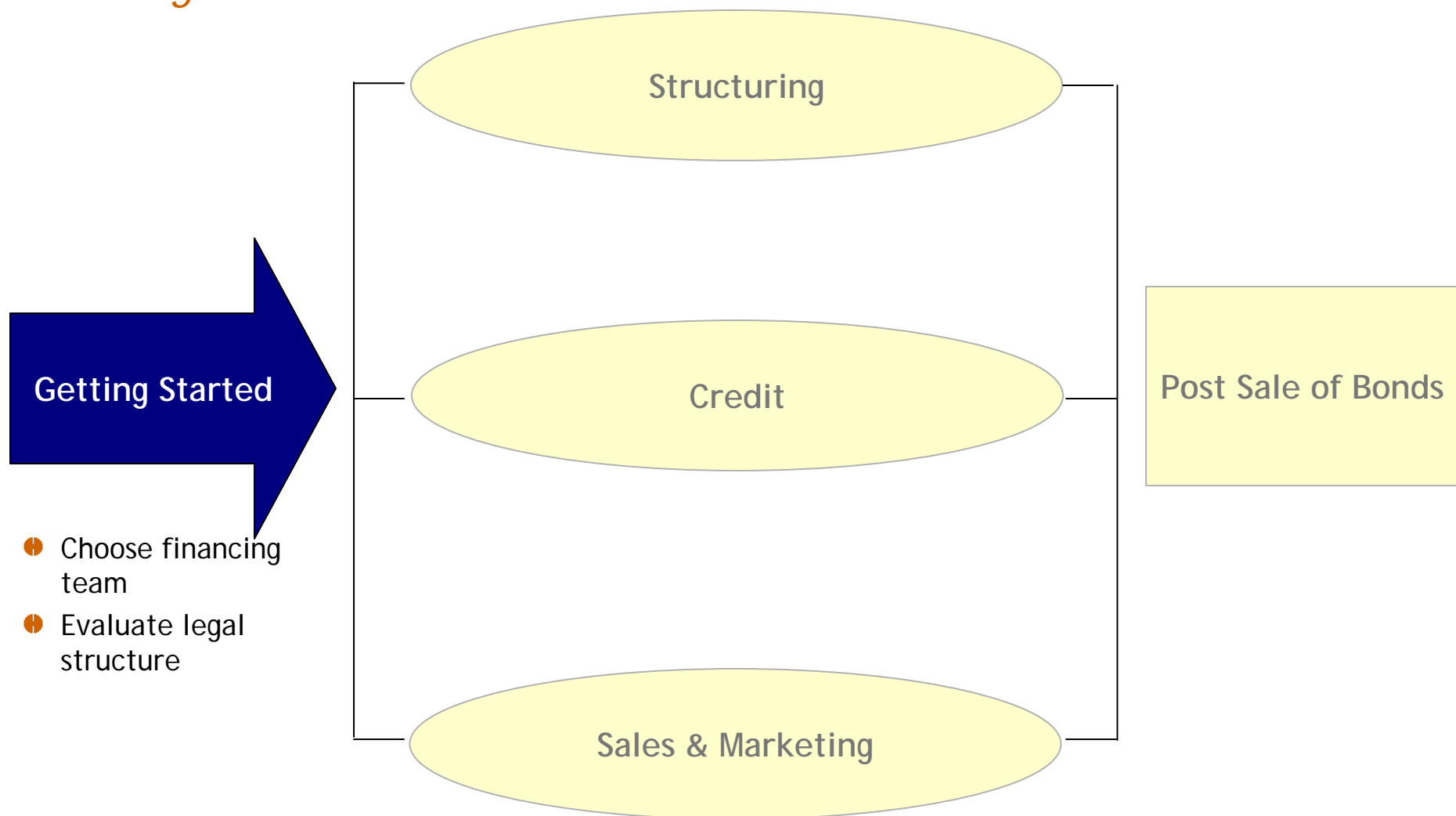


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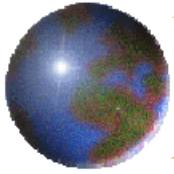
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Getting Started

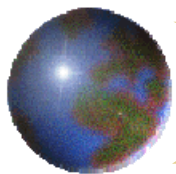


- Choose financing team
- Evaluate legal structure



Issuing Debt

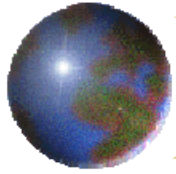
- An issuer can raise money in a variety of ways through loans or the municipal market
 - Letter of Credit/Loan - Provides the issuer with a small loan which can be used for any expense
 - Municipal Debt - By accessing the public market, the issuer must make public financial disclosures and bond documents, and the bond proceeds are more restricted and monitored
- The benefit of issuing municipal debt to raise capital is that it provides a less expensive debt financing option as compared to the private market
 - Accessing the public market also enables the issuer to issue tax-exempt bonds at a low overall cost of capital
- New money versus refunding transactions can determine whether a deal is sold competitively or negotiated



Competitive vs. Negotiated Transactions

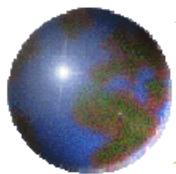
- The two methods of sale for issuing municipal debt offer certain advantages and disadvantages:

	Conditions Favoring a Competitive Sale	Conditions Favoring a Negotiated Sale
Debt Structure		
Pledged Revenues	<ul style="list-style-type: none">■ General Obligations or Strong System Revenue	<ul style="list-style-type: none">■ Project Supported Revenues
Security Structure (For Revenue Bonds)	<ul style="list-style-type: none">■ Conventional Resolution & Cash Flow■ Rate Covenant & Coverage	<ul style="list-style-type: none">■ Unusual or Weak Covenants■ Subordinate Debt
Debt Instrument	<ul style="list-style-type: none">■ Traditional Serial & Term, Full Coupon Bonds	<ul style="list-style-type: none">■ Use of Innovative Structuring or Derivatives Products■ Structured to Attract Particular Investors (i.e. Discount Bonds)
New Money vs Refunding	<ul style="list-style-type: none">■ New Money and plain vanilla structures	<ul style="list-style-type: none">■ Refunding or complex new money structures
Credit Quality		
Rating	<ul style="list-style-type: none">■ "AA" or Better	<ul style="list-style-type: none">■ Below "A"
Outlook	<ul style="list-style-type: none">■ Stable	<ul style="list-style-type: none">■ Weak but Improving■ Under Stress



Setting up the financial team

- The RFP is the most commonly used form of determining a financial team
- Issuer releases a written document requesting certain information from prospective team members
 - ▣ RFPs can be very general requests for qualifications or can be specific and detail oriented
- The Issuer will outline response specifications that include but are not limited to:
 - ▣ Proposal due date
 - ▣ Number of Proposals and to whom they should be sent
 - ▣ Date by which questions must be asked
 - ▣ Who to contact for questions
- The Issuer may make a decision after the RFPs are submitted or may choose to have a second round of interviews, called “shortlists”
 - A shortlist consists of a presentation outlining the RFP response and a forum for the Issuer to ask questions and for the prospective team members to answer
- After the shortlist presentations, the Issuer will select different firms for various roles to serve on the deal team



Essential deal team

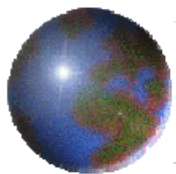
- The type of transaction dictates the manner in which a financing team is chosen; however the financial advisor and bond counsel are typically first to be selected
 - Financial Advisor: Quarterbacks the team, including developing plan of finance, works with investment banker on execution, and negotiates pricing
 - Bond Counsel: Outside counsel that specializes in bond financing, gives opinions on enforceability of the bonds, tax exemption of interest on the bonds and other matters
- The selection of underwriters is dependent on the method of sale the issuer prefers

Competitive

- Through a Competitive Sale, Underwriters compete to buy all the bonds on a given sale date

Negotiated

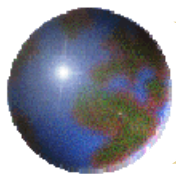
- Underwriters are chosen in advance of the sale
- The price of the bonds is set by a negotiation between the issuer and Senior Manager
- In a Negotiated Transaction, the Issuer can choose an underwriting team through the following ways:
 - RFP Process
 - Existing Relationships
 - Pre-approved pool



Additional Professionals Join the Finance Team to Sell and Underwrite the Bonds

- **Senior Managing Underwriter**

- Investment Bankers: Structure the transaction, review documents, credit ratings process, credit enhancement solicitation, etc.
- ✚ Underwriters
 - Price the bonds
 - Manage the pre-marketing and marketing of the bonds
 - Coordinates with the sales force, traders and co-managers
 - Ultimately decides at what price to purchase the bonds, and how much to underwrite (purchase without corresponding orders)
- Traders
 - Provide secondary market information used to determine pricing of the Bonds
- Sales Force - Sell the bonds to investors
 - Institutional sales office
 - Retail sales force



Financing Team Members Perform a Range of Activities

● Additional Legal Team

■ Issuer's Counsel

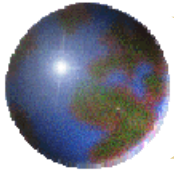
- In-house counsel, or outside counsel that specializes in bond financing
- Advises the Issuer concerning credit structure, disclosure issues, indemnification, provisions and other matters

■ Underwriter's Counsel

- Outside counsel that advises the Underwriter
- Helps prepare disclosure statement describing the bonds

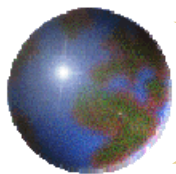
● Trustee / Paying Agent

- A bank or trust company that is a party to the Indenture and enforces the covenants of the Indenture on behalf of investors
- Trustee / Paying Agent functions: establishes and maintains funds and accounts created under the Indenture and collects debt service payments to be distributed to investors

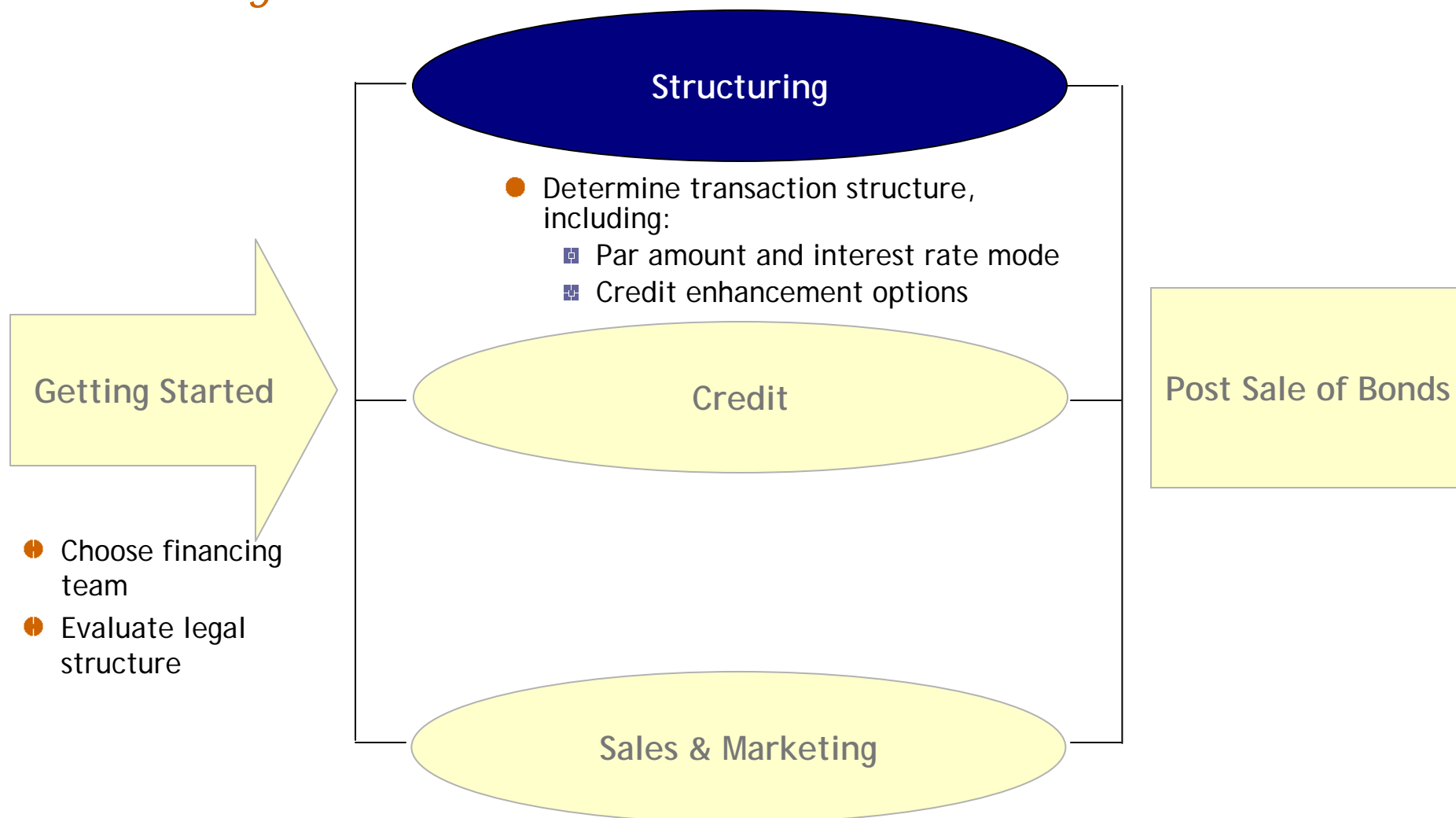


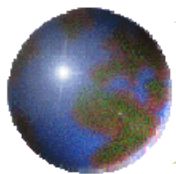
Once the Deal Team is Selected, the “Kickoff Meeting” is the Starting Point to Plan a Course of Action for the Transaction

- **Familiarize Team and Establish Roles**
 - Issuer (all officials involved), legal counsels, financial advisors, senior managing underwriter and trustee
- **Review Market Conditions**
 - ▣ Discuss any potential issues that may affect the credit and bond structure
 - ▣ Discuss if any credit enhancements are anticipated
 - Bond insurance
 - Letter of credit
 - Liquidity facility
- **Determine Strategy**
 - ▣ General financing structure
 - Fixed rate versus variable rate bonds
 - Synthetic products
 - Financing timetable



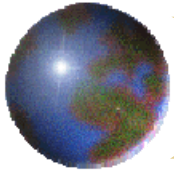
Structuring the Bonds





Transaction Structuring - Key Activities

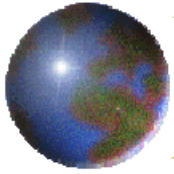
- Develop financial projections
 - Revenue projections
 - Operating projections
 - Stress cases
- Determine financing structure
 - Par amount
 - Flow of funds
 - Interest rate mode
 - Covenants (e.g. reserve funds, coverage requirements, additional bonds test, etc.)
- Evaluate credit enhancement options
 - Compare estimated interest rate on bonds with credit enhancement (e.g. insurance, liquidity, or letter of credit) to the estimated interest on unenhanced bond to determine whether credit enhancement is cost effective
- Due diligence
 - The lawyers on the transaction will analyze the aspects of the deal to confirm its accuracy and viability



Risk Considerations

Funding Decisions

- Interest rate decision
 - Floating rate
 - Fixed rate
- Funding decision
 - Committed
 - Uncommitted
- Tax risk decision
 - Retain
 - Transfer to investors/dealers



Debt Mode Options

Fixed Rate Debt

Definition: A long-term bond with an interest rate fixed to maturity

Advantages

- Long-term fixed interest rates are near their lowest levels in 40 years
- Committed funding; known cost of capital until maturity with no investor put features

Disadvantages

- Higher cost of capital in a positive yield curve environment
- Typically non-callable for 10 years
- Limited to one advance refunding

Floating Rate Debt

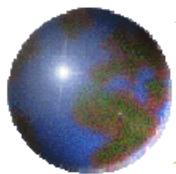
Definition: A floating rate bond is a bond for which the interest rate is adjusted periodically according to a predetermined formula, usually linked to an index

Advantages

- Historically lowest cost of funding
- Achieves greatest call flexibility
- Flexibility to change between modes (multi-modal documents)

Disadvantages

- Bonds are subject to put risk (uncommitted funding)
- A rating downgrade, industry shock or change in tax law may affect the interest rate
- Typically requires liquidity enhancement which may increase costs or be in decreased availability upon adverse credit events



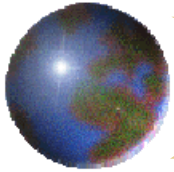
Key Structuring Characteristics

- Bond Proceeds are the funds received by an issuer from the underwriter for the sale of the bonds. It differs from the Par Amount of the bonds depending upon whether the bonds are par, discount or premium.
 - For example, if an issuer needs \$100,000,000 to build a project, the par amount varies as shown below:

Bond Type	Par Amount	X Price	=
Par	100,000,000	X 1.0000	\$100,000,000
Discount	106,347,907	X 0.9403	100,000,000
Premium	94,367,221	X 1.0597	100,000,000

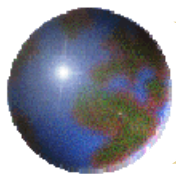
- Par Bonds
 - Coupon equals yield, purchase price equals principal amount
- Discount Bonds
 - Coupon is less than yield, purchase price less than principal amount
- Premium Bonds
 - Coupon is greater than yield, purchase price greater than principal amount

Coupon Type	Price	Example: 7/1/2013 Maturity
Premium	>100	5.00% to yield 4.25%; Price 103.24
Par	=100	4.25% to yield 4.25%; Price 100.00
Discount	<100	4.00% to yield 4.25%; Price 98.91



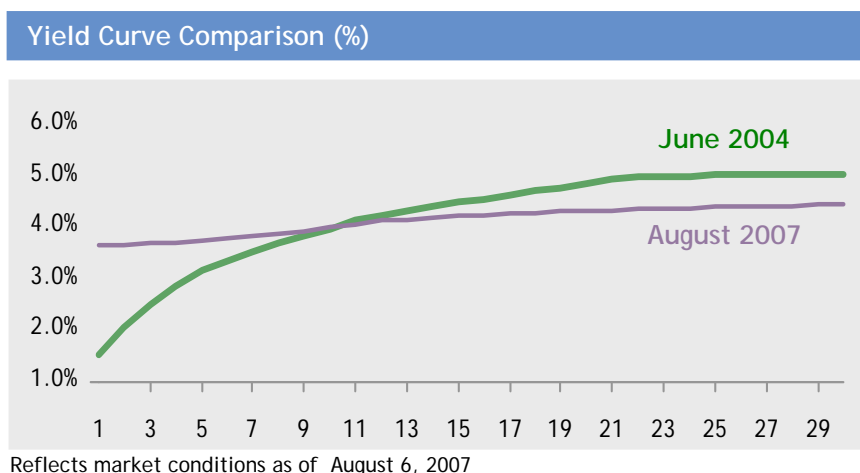
Redemption Features Also Have an Impact on Pricing and Investor Demand

- Bonds may be issued with the ability to “pre-pay”, “redeem” or “call” the bonds prior to their scheduled maturity
- Redemptions are typically optional, mandatory or extraordinary
 - Optional redemption allows an issuer to defease or refund the bonds prior to scheduled maturity
 - Under current market conditions, the standard optional redemption provision is 10 years from issuance at par (100)
 - Shorter call features typically result in higher yields, non-callable bonds result in lower yields
 - Call options are a valuable asset to the issuer because they enable an issuer to save money through a refunding and provide restructuring flexibility
 - Any non-standard call features should be subject to a cost/benefit analysis
 - Typically, extraordinary redemption allows for prepayment in the event of damage or destruction
 - Mandatory redemption allows for annual sinking fund payments on term bonds



Bond Structures Reflect Market Conditions and Investor Preferences

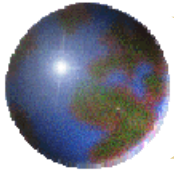
- Yield curve continuously changes and impacts the optimal bond structure



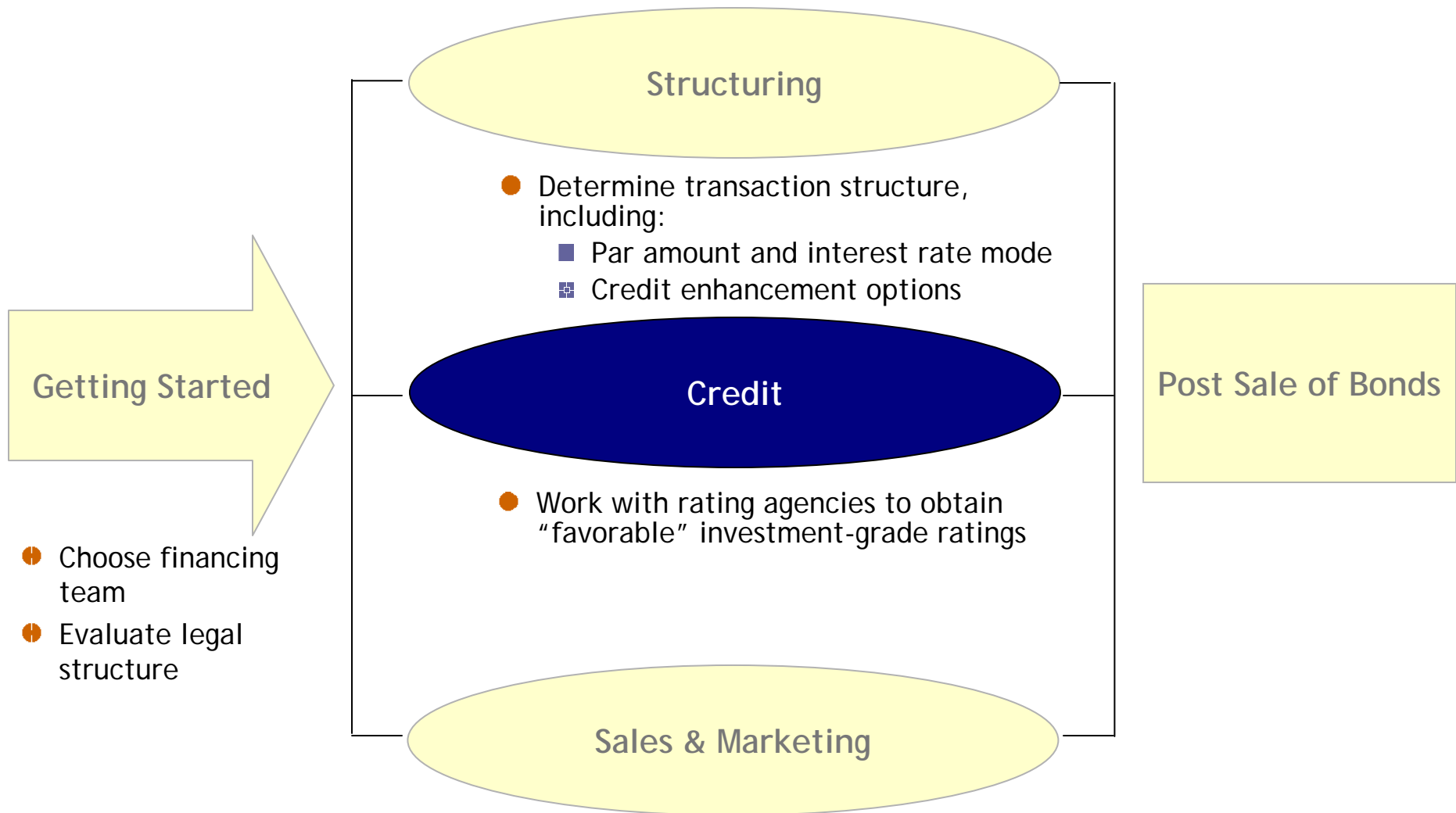
- Currently, flat yield curve
- Inexpensive to extend from 20-30 years
- Little benefit from serializing out long

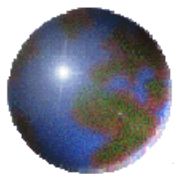
- A combination of serial and term bonds across the yield curve are used to attract investors and achieve the lowest cost of funds

	Investor Type
Serials 1-10	Retail, Investment Advisors, Bank Trusts, Money Managers
Serials 11-20	Middle Market, Insurance Companies, Small Corporations, Bank Trusts, Investment Advisors, Bond Funds
Term Bonds	Bond Funds, Insurance Companies, Other Institutions



Credit Features



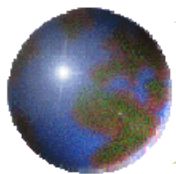


Rating Agency Approach

- The Issuer will need to assure rating agencies that it can afford to pay its debt service

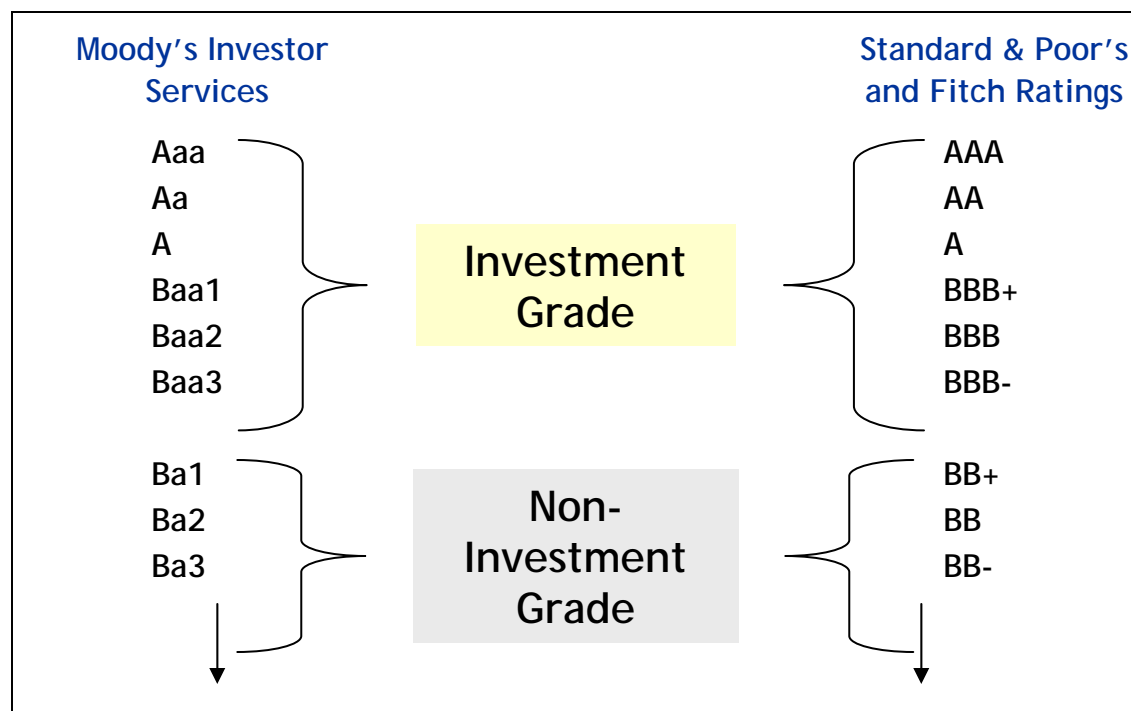


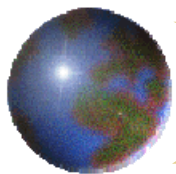
	Objective	Subjective
Demographics		
Sizeable	✓	
Healthy Tax Base (low concentration)	✓	
Socio-economic Profile of Residential and Business Tax Base	✓	✓
Financial Statistics		
Cash as % of Revenue	✓	
Size of Reserves	✓	
Total Debt Burden	✓	
Fiscal Management		
Perceptions of the Issuer's Financial Management Team		✓
Quality of Debt Management Policy		✓
Level of Disclosure in CAFR and Accuracy of Information Provided	✓	✓
Vulnerability to Undue Political Influence		✓
Growth Prospects		
Strong economic prospects		✓
Strong assessed value growth	✓	
Growth Impediments (i.e., Crime, Educational System, etc.)		✓



Ratings Impact Insurance Premium and Spreads

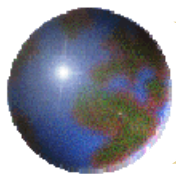
- Typically, the lower the credit rating, the higher the insurance premium
- Rating agencies require insurers to set aside varying levels of capital according to certain credit characteristics of the policy holders (issuers)
 - The more capital the insurer is required to set aside, the more the insurer will charge the issuer for the insurance policy
- If the Issuer does not utilize insurance, the trading spreads will reflect the Issuer's rating



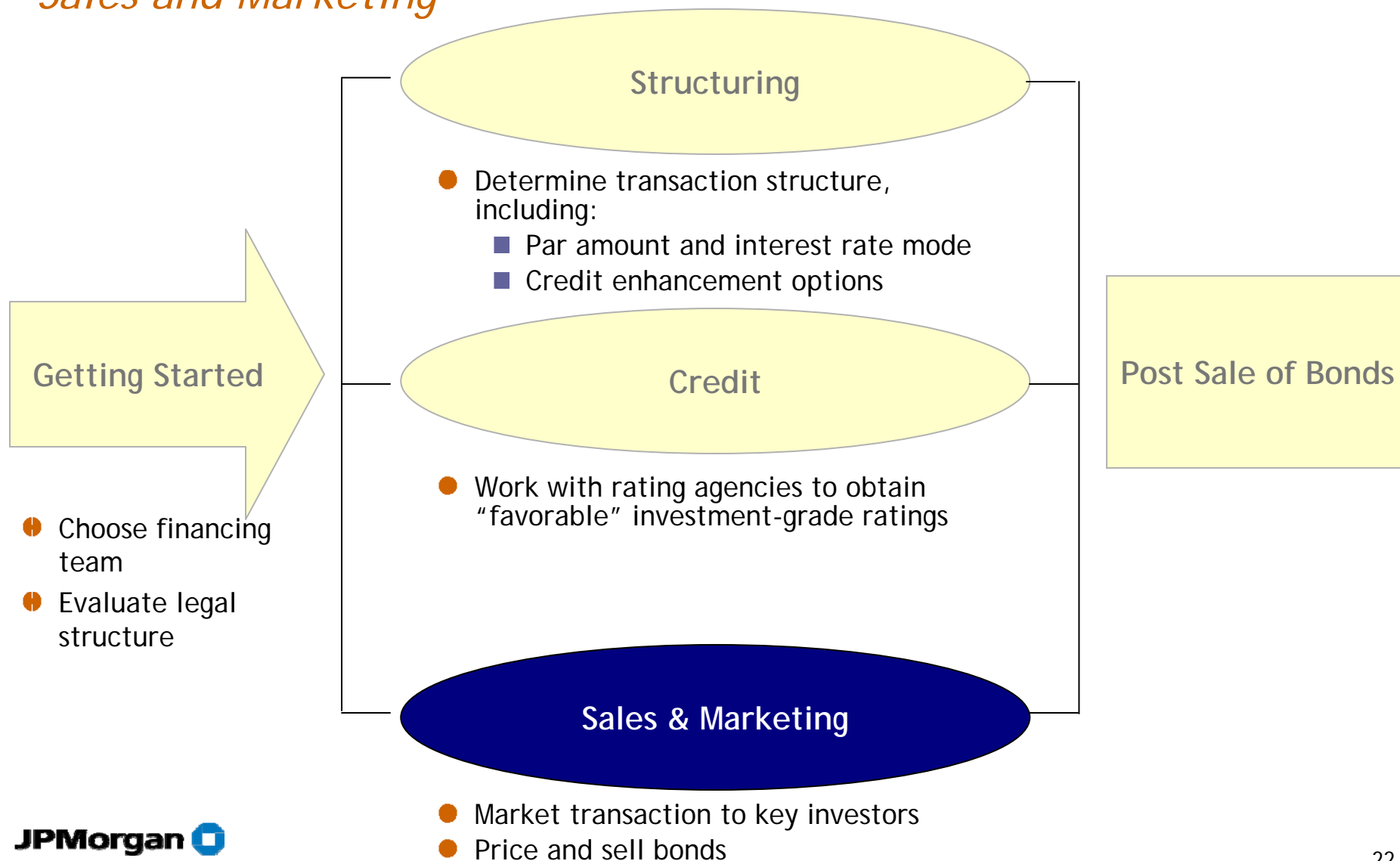


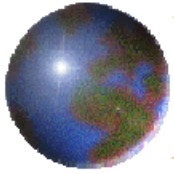
Credit Enhancement Options

Bond Insurance	Letter of Credit	Liquidity Facility
<ul style="list-style-type: none">● Represents an insurer's pledge to pay principal and interest in the event the Issuer is unable to do so● Long-term ratings of the bonds are based on the bond insurer - generally "AAA" bond insurance is utilized for municipal issuers● Bond insurance is paid upfront and based on a percentage of total debt service● Five major bond insurers are FSA, MBIA, AMBAC, FGIC, and XL Capital	<ul style="list-style-type: none">● Letter of Credit - Provides credit enhancement and liquidity support● Bank must pay bondholders no matter what happens to issuer<ul style="list-style-type: none">■ bankruptcy■ downgrade■ default● Bank's annual fee reflects issuer's rating, letter of credit maturity, size of exposure	<ul style="list-style-type: none">● Line of Credit or Standby Bond Purchase Agreement - Provides liquidity support● Bank must pay bondholders in all cases except:<ul style="list-style-type: none">■ voluntary bankruptcy of issuer■ issuer fails to pay principal & interest■ issuer default on parity debt■ involuntary bankruptcy■ bond insurer (if present) default or bankruptcy■ issuer's long-term rating falls below investment grade● Limited to issuers A+ or better

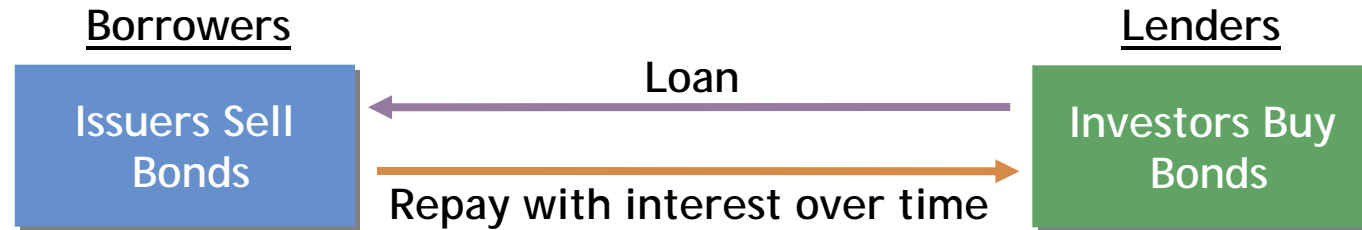


Sales and Marketing





Pricing Objective: Lowest True Interest Cost/Highest Price



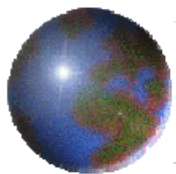
- Inherent trade offs in the pricing process:

- ✦ Issuer wants:

- Lowest yield to maturity
 - Maximum call flexibility

- ✦ Investor wants:

- Highest yield to call
 - Call protection
 - Defensive couponing

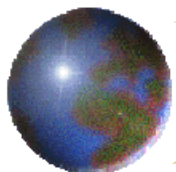


The Interest Cost Reflects the Ongoing and Upfront Costs of the Transaction

- True Interest Cost (“TIC”):
 - Rate at which the Underwriter will buy the bonds
- All-in True Interest Cost (“All-in TIC”):
 - All-in borrowing rate to issuer; reflects all costs

	True Interest Cost	All-in True Interest Cost
Coupon Rates	X	X
Discount/Premium	X	X
Bond Insurance	X	X
L/C; Liquidity	X	X
Remarketing Fee	X	X
Underwriter's Spread	X	X
Cost of Issuance		X

- The All-in TIC includes the cost of issuance, which the TIC does not



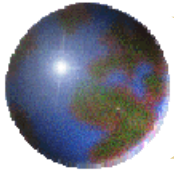
Additional Transaction Costs Include Fees Related to the Sale and Registration of the Bonds

\$100,000,000 Issuer Series 2007		
	Per Bond	Total
Total Underwriter's Discount	\$ 6.70	\$ 670,062.78
<u>Components of Underwriter's Discount</u>		
Average Takedown/Placement Fee:	\$ 5.000	\$ 500,000.00
Management Fee:	1.000	100,000.00
Structuring Fee:	-	-
Combined Expenses:	0.701	70,062.78
Grand Total:	\$ 6.701	\$ 670,062.78
<u>Estimated Breakdown of Expenses</u>		
Underwriter's Counsel:	\$ 0.500	\$ 50,000.00
TBMA + California PSA:	0.040	4,000.00
CUSIP:	0.004	420.00
DTC:	0.003	275.00
California Debt Advisory Commission:	0.030	3,000.00
Day Loan:	0.028	2,777.78
Total Syndicate Wire (DALCOMP+tax):	0.066	6,590.00
GASB Fee (Voluntary):	0.005	500.00
Good Faith check:	-	-
Document Printing:	-	-
Travel and out of Pocket:	0.025	2,500.00
Total:	\$ 0.701	\$ 70,062.78

Underwriter
Compensation {

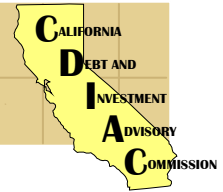
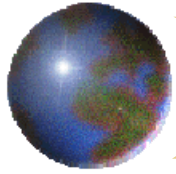
Issuance expenses {

Reimbursement to
the Underwriter →



Pricing Objectives

- The key objectives for the underwriter are to:
 - Sell the bonds
 - Achieve the lowest cost of funds for the issuer
 - Broad and balanced distribution of the bonds
- There are many considerations when pricing bonds, such as:
 - Par Bonds
 - Discount Bonds
 - Premium Bonds
- Stated yield - the yield stated to the investor at time of purchase
- Yield to Maturity - if investor holds bond until maturity
- Yield to Call - if the issuer pays off the bond early

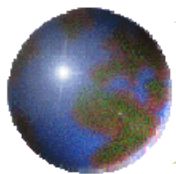


Pricing Strategies

- To help determine the appropriate pricing, the underwriters will take a sample of comparable bonds issued in the market to see the spread differential

ISSUER A Revenue Bonds, Series 2006						ISSUER B Revenue Bonds, Series 2006					
Insurance:			MBIA			Insurance:			MBIA		
Underlying Ratings:			A2/A/A			Underlying Ratings:			A3/A/A		
Call Provisions:			September 1, 2016 @ 100%			Call Provisions:			June 15, 2015 @ 100		
Pricing Date:			August 23, 2006			Pricing Date:			September 1, 2006		
Due September 1	Principal Amount	Interest Rate	Yield	8/23/2006 MMD	Spread	Due June 15	Principal Amount	Interest Rate	Yield	9/1/2006 MMD	Spread
2008	\$ 305,000	3.500%	3.250%	3.190%	0.06%	2008	575,000	3.000%	2.840%	2.700%	0.14%
2009	920,000	3.500%	3.280%	3.210%	0.07%	2009	595,000	3.000%	3.020%	2.860%	0.16%
2010	1,070,000	3.500%	3.360%	3.260%	0.10%	2010	610,000	3.500%	3.170%	3.020%	0.15%
2011	1,180,000	3.750%	3.460%	3.330%	0.13%	2011	3,805,000	5.250%	3.410%	3.180%	0.23%
2012	1,300,000	3.750%	3.570%	3.410%	0.16%	2012	2,400,000	5.250%	3.530%	3.320%	0.21%
2013	1,425,000	4.000%	3.680%	3.490%	0.19%	2012	1,600,000	4.000%	3.530%	3.320%	0.21%
2014	1,555,000	4.000%	3.780%	3.570%	0.21%	2013	4,190,000	5.250%	3.680%	3.450%	0.23%
2015	1,690,000	4.000%	3.860%	3.630%	0.23%	2014	4,410,000	5.000%	3.780%	3.550%	0.23%
2016	1,835,000	4.000%	3.910%	3.680%	0.23%	2015	3,880,000	5.000%	3.880%	3.650%	0.23%
2017	1,985,000	5.000%	4.020%	3.730%	0.29%	2015	750,000	3.625%	3.880%	3.650%	0.23%
2018	2,165,000	4.000%	4.070%	3.780%	0.29%	2016	4,855,000	5.000%	3.960%	3.730%	0.23%
2019	2,330,000	5.000%	4.120%	3.830%	0.29%	2017	5,100,000	5.000%	4.030%	3.800%	0.23%
2020	160,000	4.100%	4.170%	3.880%	0.29%	2018	4,000,000	5.000%	4.070%	3.860%	0.21%
2020	2,365,000	5.000%	4.170%	3.880%	0.29%	2018	1,350,000	4.000%	4.000%	3.860%	0.14%
2023	3,090,000	4.750%	4.420%	4.020%	0.40%	2019	5,605,000	5.000%	4.100%	3.920%	0.18%
2024	3,320,000	4.750%	4.460%	4.060%	0.40%	2020	5,880,000	5.000%	4.150%	3.980%	0.17%
2025	150,000	4.250%	4.340%	4.100%	0.24%	2021	5,120,000	5.000%	4.200%	4.040%	0.16%
2025	3,410,000	5.000%	4.340%	4.100%	0.24%	2021	1,060,000	4.125%	4.125%	4.040%	0.09%
2026	495,000	4.250%	4.370%	4.140%	0.23%	2022	8,480,000	5.000%	4.240%	4.100%	0.14%
2026	3,325,000	5.000%	4.370%	4.140%	0.23%	2023	6,800,000	5.000%	4.270%	4.160%	0.11%
2030	18,090,000	4.625%	4.670%	4.270%	0.40%	2024	7,145,000	5.000%	4.310%	4.220%	0.09%

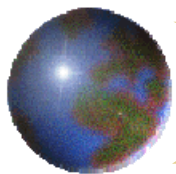
- Bifurcated coupons help attract both retail and institutional buyers by offering two yields for a specific maturity



Marketing Plan

- Use traditional and non-traditional institutional and retail distribution outlets
- Identify potential purchasers through comprehensive credit analysis
 - Bond funds
 - Arbitrage investors
 - Retail
- Position the bonds for purchase by investors across all buying segments
- Combine institutional and retail demand to achieve aggressive prices and low yields

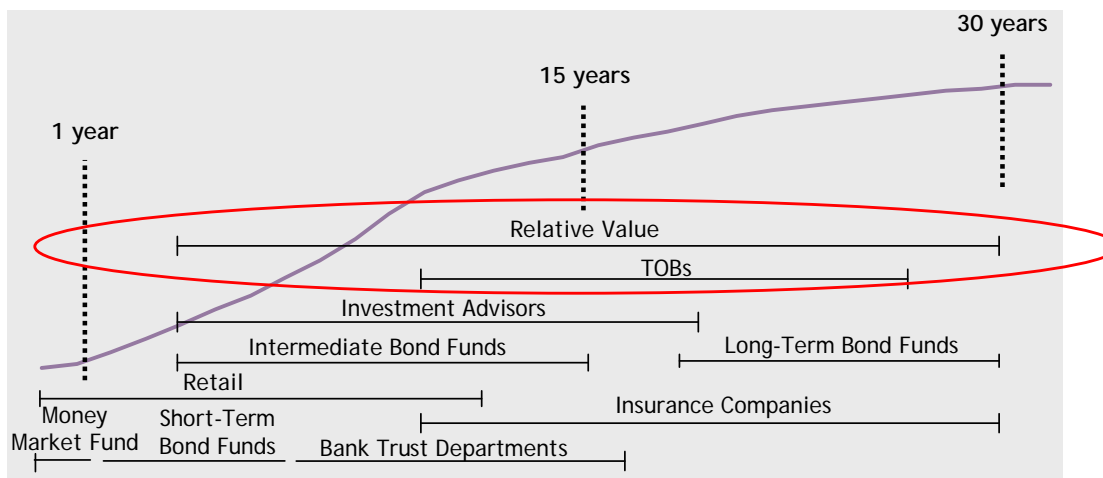
PRESALE	SALE	POST SALE
Develop target buyer list and distribute offering materials	On afternoon prior to sale, develop consensus scale	Distribute final OS
Develop presentation materials for investors	Canvas interested investors for preferred structure	Comprehensive post sale analysis provided to ISSUER A
Contact key investors	Pre-pricing call with ISSUER A	Commence ongoing investor relations program
Arrange for ISSUER A to speak directly with investors via investor presentations and/or conference calls	Make information available to investors electronically	Aggressively make a market and provide liquidity to purchasers of ISSUER A's debt
Conduct a retail order period	Price aggressively	Ongoing secondary market information provided for ISSUER A
Generate national institutional demand	Morning of sale, take orders and adjust scale if necessary	
	Underwrite unsold bonds	

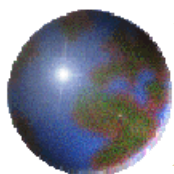


Establish Strategies for Different Types of Investors

- Retail
 - Individual investors
 - From “mom and pop” to the wealthy individuals
- Institutional Investors
 - Bond funds, tax-exempt money market funds, insurance companies, commercial banks, corporations, and banks, if bank qualified bonds
- Middle Market Investors
 - Small and medium sized insurance companies, bank trust departments, investment advisors and others with total assets of \$4 billion or less
- Non-Traditional Investors
 - Non-traditional, relative value investors leverage the entire spectrum of the yield curve

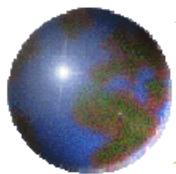
Leveraging the entire spectrum of investors is crucial to a successful pricing





Non-traditional Investors are an Important Source of Demand in the Municipal Market

Non Traditional Investors	
Investor category	Factors affecting buy decision
Arbitrage accounts <ul style="list-style-type: none"> ■ Municipal bond specific ■ Frequently dealer-related Proprietary trading accounts 	<ul style="list-style-type: none"> ■ Relative trading value of cash municipals vs. treasury futures, LIBOR swaps, BMA swaps, or MMD rate-locks ■ Credit-spread movements within the municipal bond market
Hedge funds <ul style="list-style-type: none"> ■ Leveraged domestic or off-shore multi-strategy funds that may purchase municipal bonds as one of many asset classes 	<ul style="list-style-type: none"> ■ If employing a <i>relative value strategy</i>, a hedged bet is made on the outperformance of municipal bonds vs. a hedge vehicle ■ If employing a <i>credit strategy</i>, the fund bets on the outperformance of a specific credit or credit sector, most commonly but not limited to the airline or tobacco sectors
Tender-option bond programs <ul style="list-style-type: none"> ■ A Tender-option bond program utilizes a hedged-trust structure and third-party (non-issuer) puts to convert the cash flow from fixed-rate bonds into synthetic variable-rate demand ■ Estimated tender-option bond assets are now in excess of \$100 billion ■ Tender-option bond structures are used by bond funds, hedge funds, proprietary trading desks, and investment advisors 	<ul style="list-style-type: none"> ■ Relative-value along the municipal-bond curve, particularly from 15–40 years. Buyer will gravitate to maturities where cash bonds are cheapest relative to LIBOR swaps ■ Tender-option bond programs will slow purchases and can face mandatory unwinds or other remedial events when BMA rises above the deposit yields of the fixed-rate bonds
Foreign banks and mortgage companies <ul style="list-style-type: none"> ■ Trading and investment strategies differ between U.S. based subsidiaries of foreign banks and actual foreign entities 	<ul style="list-style-type: none"> ■ U.S. based subsidiaries can use tax-exempt interest, and generally use same structures and strategies as arbitrage accounts and Tender-option bond accounts ■ Foreign entities may receive favorable capital-charge treatment on investments in U.S. municipal debt. Exposure is through taxable municipal bonds, or total-return swap structures



Some of the Largest Institutions are Buyers of Municipal Bonds

Mutual Funds

- Vanguard
- Fidelity
- Nuveen
- Putnam Investments
- Capital Research
- Van Kampen Investments
- Oppenheimer Funds
- Federated Investments
- USAA
- T Rowe Price

Investment Advisors/Trust Departments

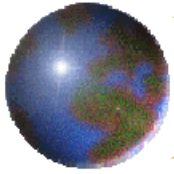
- JP Morgan Investment Management
- Northern Trust
- Sanford Bernstein
- Blackrock
- Goldman Sachs Asset Mgt
- Standish Mellon Asset Management
- Gannett, Welsh, and Cutler
- Wellington Management
- Delaware Management

Property & Casualty Companies

- Aetna
- Erie Insurance
- Allstate
- Safeco
- Hartford Insurance
- St Paul Companies
- Chubb
- Metropolitan Life
- Progressive Insurance

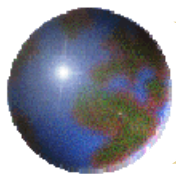
Non-traditional Investors

- JPMorgan Arb
- Susquehanna Investments
- Stark & Roth
- Morgan Stanley Proprietary Trading
- Merrill Lynch Arb
- Citigroup Arb



Sales and Marketing - Key Activities

- Market bond transaction
 - Organize 1- to 2-week “roadshow” of meetings and investor calls to describe the offering
 - A roadshow consists of conferences and meetings targeted to specific audiences in order to explain and sell the transaction
 - Determine sale date based on market conditions
 - Send marketing materials (i.e. the preliminary official statement) to investors
 - Send an internal Sales Point Memo to the underwriting desk
 - This provides a summary of the key aspects of the deal for the salespeople



Key Investor Marketing Tools



- Investor Call

- The Underwriter sets up a national conference call with a targeted investor group to explain and market the credit features of the bond structure.



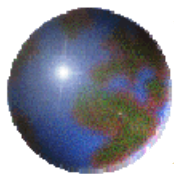
- Internet Conference

- Similar to the investor conference call, this is a means of reaching a large pool of potential investors to explain the credit story. This provides internet access to the presentation so the investors can follow the conference in real-time.



- Video Conference

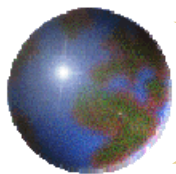
- Through a live feed on the internet, investors are able to watch the presentation as if they were there in person. This provides real-time access to the presentation and is a means of reaching a large pool of potential investors.



Sales Point Memo - Sample

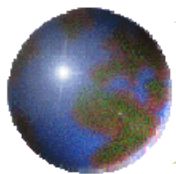
\$100,000,000
ISSUER
Revenue Bonds, Series 2006

Senior Manager	JPMorgan	Economics (if known): Net Designated <u>X</u> Group Net ____	
Co-Managers	Company A Company B		
Insured/Underlying Ratings: (MBIA Insurance)	<table><tr><td><u>Insured</u> Moody's: Aaa S&P: AAA Fitch: AAA</td><td><u>Underlying</u> Moody's: A2 S&P: A Fitch: A</td></tr></table>		<u>Insured</u> Moody's: Aaa S&P: AAA Fitch: AAA
<u>Insured</u> Moody's: Aaa S&P: AAA Fitch: AAA	<u>Underlying</u> Moody's: A2 S&P: A Fitch: A		
Expected Pricing Date*:	Retail Order Period is September 26, 2006 Institutional Order Period is September 27, 2006		
Dated Date*:	October 2, 2006		
Final Maturity Date*:	September 1, 2038		
Interest Payment Dates:	September 1 and March 1 of each year, commencing March 1, 2006		
Tax Status:	Tax-Exempt		
Optional Redemption*:	The Series 2006 Bonds are subject to redemption at the option of ISSER on any date on or after September 1, 2015		
Security*:	The Series 2006 Bonds are secured by the revenues generated from REVENUE STREAM A.		
Sales Points*:	<ul style="list-style-type: none">ISSUER has secured a commitment from INSURER to insure the bondsSeries 2006 bonds show debt service coverage greater than 1.75 times throughout the life of the bonds.ISSUER covenants that no additional bonds will be issued unless they meet an Additional Bond Coverage Requirement <i>greater than 175% of Maximum Annual Debt Service</i> for all Outstanding Bonds, including any Additional Bonds then being issued.REVENUE STREAM A has grown at an average rate of 5% per year over the last 10 years.The Series 2006 Bonds are senior to any debt outstanding		
Use of Proceeds:	The proceeds will be used to construct PROJECT A and pay costs of issuance for the Series 2006 Bonds.		



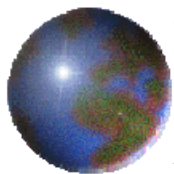
An Effective Pre-Pricing Process is Critical to Achieving the Lowest Interest Cost

- Gather relevant market information
 - Be aware of upcoming economic releases when selecting pricing date
 - Develop an understanding of market conditions (e.g. rates increasing/decreasing, spreads to MMD tightening/narrowing, etc.)
 - Identify and review appropriate market “comps” and recent MMD
 - Notify the market of the upcoming transaction through the press and managers
- Pre-pricing call (day before pricing) with issuer, underwriter(s) and Financial Advisor to discuss:
 - Market conditions, competing transactions, supply, etc.
 - Recommended bond structure and the pricing to “go out with” the next day
 - Coupons/Yields
 - Call Features
 - Plans for release of the “wire”, timing of the order period, etc. for the next day
 - Time to wake up tomorrow



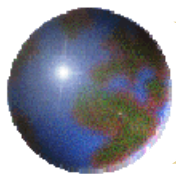
Sales Calendar Should Provide Sufficient Time to Effectively Market the Bonds

Time to Final Pricing	Task	Comments
Minus two weeks	"Mail" Preliminary Official Statement	POS is often posted on a web site without physical printing
Minus one to two weeks	Pre-marketing	<ul style="list-style-type: none"> ▪ Sales desk talks up the sale to key buyers ▪ Underwriter prepares a sales point memo ▪ Brokers talk to retail customers ▪ Issuer may have investor meetings and calls
Minus one week	Pricing analysis	<ul style="list-style-type: none"> ▪ Financial advisor and investment banker assemble list of comparable sales ▪ Monitor market for competing sales, major announcements ▪ Agree to underwriters' compensation
Minus two days (e.g., Monday afternoon)	Pre-pricing	<ul style="list-style-type: none"> ▪ Underwriter proposes interest rates ▪ Financial advisor and issuer analyze and respond ▪ Agree to "going-out" scale



Sales Calendar Should Provide Sufficient Time to Effectively Market the Bonds (Cont.)

Time to Final Pricing	Task	Comments
Minus one day (e.g., Tuesday morning)	Retail order period	<ul style="list-style-type: none">▪ Day often begins with a touch base call (at 5:45 A.M. Pacific Time) to make sure market hasn't changed overnight▪ Retail brokers submit orders on behalf of customers
Minus one day (e.g., Tuesday afternoon)	Institutional Pre-pricing	<ul style="list-style-type: none">▪ Review unsold balances▪ Underwriter's revised proposal<ul style="list-style-type: none">▪ Revise interest rates to attract institutional investors▪ "Split" coupons as appropriate▪ Underwriter and FA do a little dance, make a little love▪ Agree to institutional scale
Day of sale (e.g., early Wed. morning)	Institutional pricing	<ul style="list-style-type: none">▪ Touch base call at 5:45 AM▪ Underwriter "runs an order period," from for example 9:00-11:00 New York time.▪ Review and reprice, if appropriate
Day of sale (e.g., late Wed. morning)	Final pricing	<ul style="list-style-type: none">▪ At 11:15 AM (8:15 Pacific Time) underwriter makes final pricing proposal▪ Issuer and FA confer▪ Verbal award



Syndicate Policies Represent an Issuer's "Rules of Engagement" with its Management Team for the Pricing

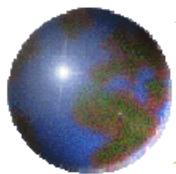
● Background Information

■ Liabilities - What happens if there are unsold Bonds?

- Reflects the role of each underwriting firm and each firm's capital strengths
- Expressed as percentages and add up to 100% across the management team
- If there are unsold balances after the sale, the remaining bonds can be split up based on liabilities

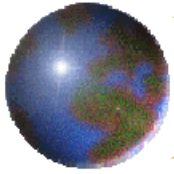
■ Type of Orders - Who gets the takedown?

Order Type	Investor Type	Takedown
Group Net	Any	Split by liabilities
Retail	Retail (Definition Established)	Underwriting firm placing order
Priority / Designated Orders	Institutional	Institutional Investor decision (subject to designation rules)
Member Orders	Underwriting Firm	Underwriting firm placing order

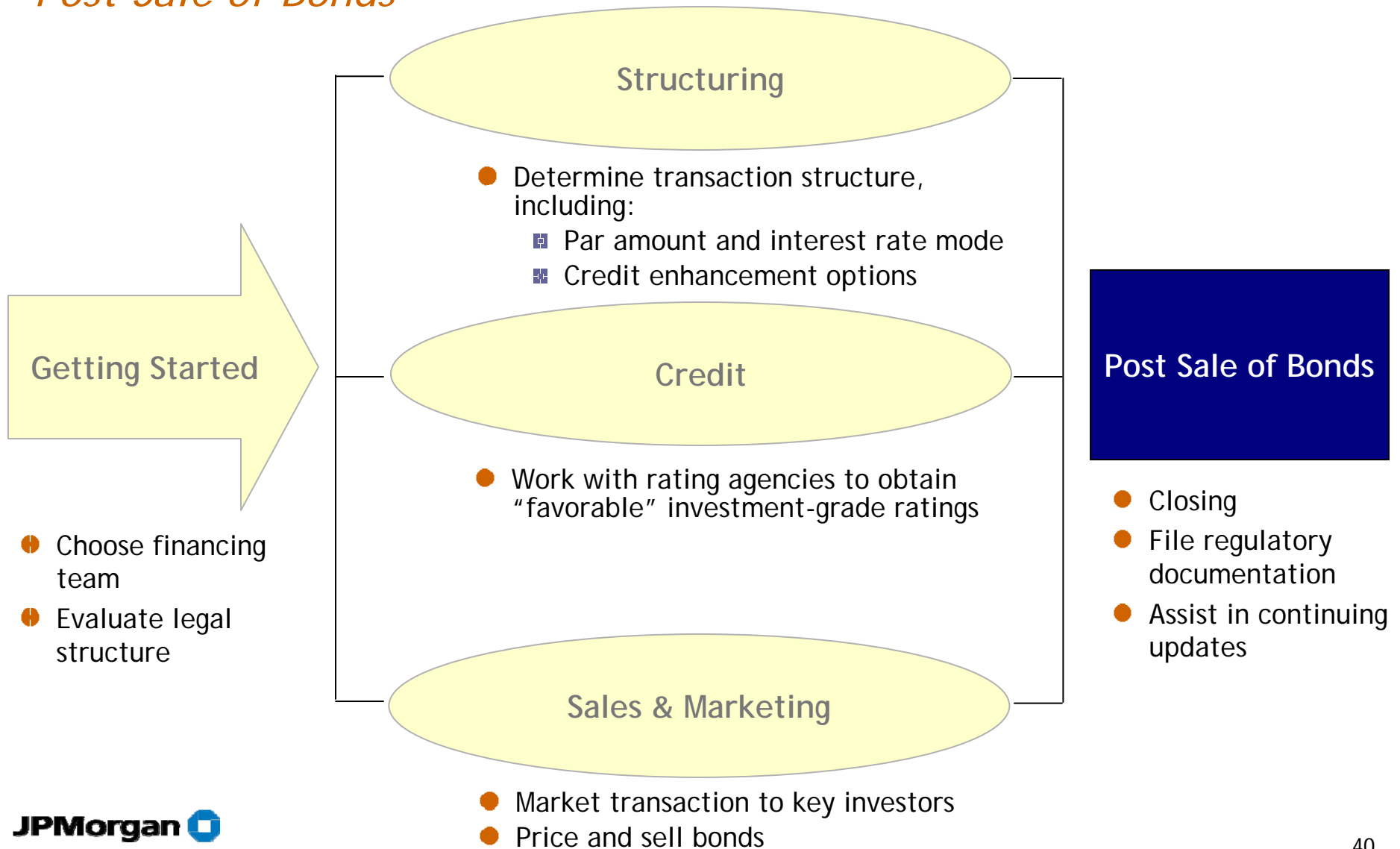


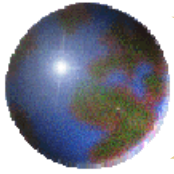
Syndicate Policies Represent an Issuer's "Rules of Engagement" with its Management Team for the Pricing (Cont.)

- Retail Order Period - What is the definition of retail and how are retail investors treated?
 - Definition of Retail - Can be limited to in-state, direct retail or be a broad definition that includes national and in-state direct retail as well as institutions that act on behalf of individuals including money managers, investment advisors and bank trust departments
 - Special 1-2 day retail-only order period prior to pricing day
- Priority of Orders: Which investor orders get filled first?
 - Typically retail, net designated and then, members orders
 - Group Net used in rare situations
- Designation Rules - Who gets the takedown on priority/designated orders?
 - Standard Rule: At least three firms must be designated and one firm can receive no more the 50% of any designation
 - Modifications occur depending on the size of the management team, the complexity of the transaction or special considerations



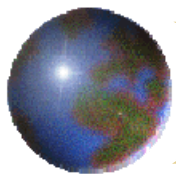
Post Sale of Bonds





Post Sale of Bonds - Key Activities

- After the sale of bonds, the financing team will be responsible for participating in the following activities:
 - Closing
 - Wiring funds
 - Finalizing and executing documents
 - Signing the Bond Purchase Agreement
 - Filing regulatory documentation
- The Issuer throughout the life of the bonds will be responsible for the following:
 - Continuing disclosure
 - Periodic rating agency updates
 - Ongoing distribution of financial information
 - Ongoing payment of principal and interest on outstanding bonds

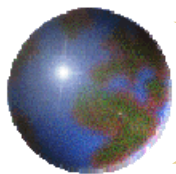


Post Sale Review



- Many issuers are choosing to have post-sale reviews of each underwriter's participation
 - Increases the underwriter's performance accountability
 - An example is provided below:

Underwriter Designations	
Underwriter	Total Designations in Dollars
J.P. Morgan Securities Inc.	100,000
Company A	50,000
Company B	30,000
Company C	10,000
Company D	10,000
Total:	200,000



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